ECONOMIC COMMENTARY

How are Alberta's Consumers Faring in the Current Economic Slowdown?

November 6, 2015

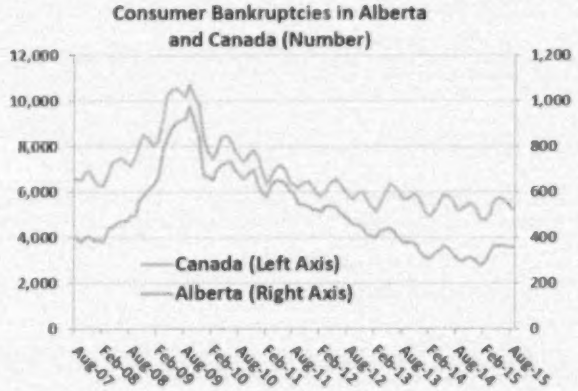
Highlights:

The sharp deterioration in crude oil prices of the past 12 months has not only had impacts on Alberta's business sector and on government finances, but is also affecting Alberta's consumers as they are becoming increasingly less confident about their own situation and are cutting back on their household purchases as a result.

Alberta Government

The recent slump in oil prices has caused the Alberta economy to enter a recession. As revenues for oil and gas extraction firms fall due to lower energy prices cost cutting measures are being introduced that affect both capital spending (such as reduced spending on drilling and exploration) and operational spending (recent lay-offs). A number of Alberta's economic drivers, such as investment and exports, are clearly impacted by the large price declines, but how are Alberta's consumers handling this setback? In this commentary we will look at a number of indicators for the consumer sector, such as bankruptcies, retail sales, motor vehicle sales, housing starts, MLS resales, and especially consumer confidence.

So far this year, Alberta consumers have not filed for bankruptcy as much as they did during the Great Recession of 2008-2009. In fact, in August Alberta still only accounted for 7% of the total number of consumer bankruptcies in Canada, a share that is identical to Alberta's long-run average share. During the first eight months of 2015 there were 2,782 bankruptcies in Alberta, compared with 2,653 during the same period of 2014 and 6,813 during the first eight months of 2009.



Source: Office of the Superintendent of Bankruptcy Canada

Source: Conference Board of Canada

Even though Alberta households have not been as hard hit as yet by the current recession as by the Great Recession, the Index of Consumer Confidence that the Conference Board of Canada publishes on a monthly basis shows that Alberta's consumers are getting increasingly more concerned about what's still in store for them. Between September 2014, when the index reached a recent high, and October of this year the Alberta index fell by 56%, a drop comparable to the decline that Alberta's consumer confidence faced in 2008-2009.[1]

In the consumer confidence survey consumers are asked four questions:

- Would you say that your family is better off or worse off financially than six months ago?

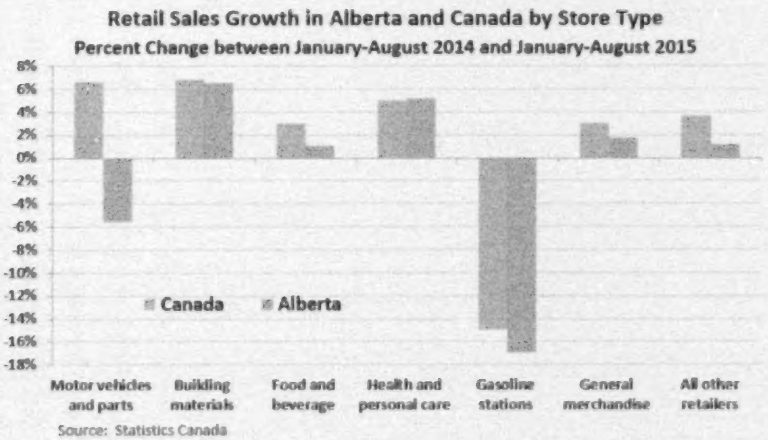
[1] For all consumer confidence indicators three-months moving averages were calculated for this section

- Would you say that your family will be better off, the same or worse off financially six months from now?
- How do you feel the job situation and overall employment will be in this community six months from now?
- Do you feel that right now is a good time or a bad time for the average person to make a major outlay for things such as a home or a car or some other major item?

The percentage of respondents that felt they are now worse off financially than six months ago has risen from 17% in October 2014 to 31% in October 2015. By comparison, in the fall of 2009, about 40% felt they were worse off. Looking forward, the percentage that believe they will be worse off financially six months from now rose from 13% last October to 23% this October, higher than the shares registered during the previous recession. Respondents are also getting more concerned about their community's job prospects: the share that believes the prospects will be worse six months from now rose from 10% in October 2014 to 51% in October 2015, higher than the previous peak of 46% in the Spring of 2009. As to the final question about now being a good or bad time to make a major outlay, the percentage that felt now is a bad time for such purchases rose from 19% to 54%, higher than the previous peak of 43% in February 2009.

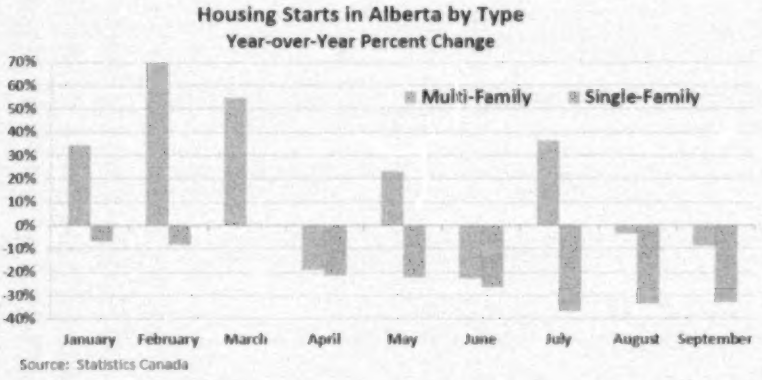
Most of the deterioration in sentiment for the first question about current finances has taken place during the past six months, while most of the deterioration in the other three more forward looking questions occurred between October 2014 and April 2015 with little change since then.

The deterioration in consumer confidence is affecting consumer spending. In Alberta, retail sales have been falling since the beginning of 2015. During the first eight months of 2015 retail sales were 2.6% lower compared to the same period of 2014. Canadian retail sales rose 2.2% over the same period and Canadian sales excluding Alberta sales rose 3.1%. Alberta retail sales have been weak so far this year due to lower gasoline prices and fewer new motor vehicles being sold. Sales by gasoline stations are 16.9% lower this year than last year. When we exclude gasoline sales total retail sales are down 0.4% so far this year. However, lower prices have caused gasoline sales to be much lower in the other provinces as well, declining by 15.0% in Canada. The reason Alberta's retail sales performance is worse than Canada's this year is mainly because far fewer new motor vehicles are being sold in Alberta as a result of the job insecurity that many Albertans currently face. The value



of sales by motor vehicle and parts dealers (combining new and used vehicles and vehicle parts) are down 5.6% in Alberta but up 6.6% in all of Canada. The number of new vehicles sold has fallen by 10.6% in Alberta so far this year, while they rose 4.7% in the rest of Canada on strong sales growth in British Columbia, Ontario and Quebec.

Alberta's housing market has also been impacted by the recession. In September, the number of MLS housing resales was 23.7% lower than the number sold in September 2014, while the average price fell by 4.5%. MLS sales prices and especially volumes have been falling since the beginning of this year: sales volumes were 20.7% lower year-to-date 2015 compared with the January to September period of 2014.



Source: Statistics Canada

New housing starts started declining in April 2015 (see below chart) and fell by 4.2% during the first nine months of 2015 compared with the same period of 2014. Multi-family starts, such as apartments and condos for rental, have increased by 11.4% so far this year, but starts of single-family homes have tumbled 22.9% over the same period. During the last three months (July, August and September), single-family starts were roughly one-third lower than in the same months of 2014.

In summary, Alberta consumers are getting more concerned about the impact that the current recession will have on their financial situation. Consumer confidence has weakened sharply this year which is affecting their spending on consumer goods, especially on durable goods such as a home or a new car.

Note: monthly statistics for housing starts, retail sales, motor vehicle sales, bankruptcies and MLS sales can be found on the Alberta Economic Dashboard at http://economicdashboard.albertacanada.com/